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Ownership Structure and Bank Performance in Zimbabwe

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Abstract
The objective of this paper as to analyze the effect of ownership structure on the performance of Zimbabwean commercial bank for the period 2009 to 2011 focusing on profitability measure measured by return on equity. Empirical literature which was reviewed brought mixed results from both developed and developing countries hence the need to carry out the research focusing on the Zimbabwean scenario. From the population of all commercial banks in Zimbabwe a multistage sampling technique was used with banks firstly divided into strata followed by convenient sampling from each strata based on the availability of annual reports. Financial statements were collected from Bank Scope database. Analysis of Variance (ANOVA) was used to analyze data and the results revealed that bank ownership structure does not have any effect on profitability. Thus in conclusion, ownership structure does not have an effect on bank performance. This paper recommends that banks should adopt techniques to boost their profitability regardless of their identity.
Keywords: Ownership structure, Return on equity, Bank performance, ANOVA, Zimbabwe

1.0 Introduction and Background

The banking sector has a great influence on the economy. Any changes in the banking sector had a direct influence on other various macroeconomic variables. Over the years, research that has been carried out on the influence of ownership on bank profitability has shown mixed results. Dating back to the period after independence (1980), the Zimbabwean banking sector was an oligopoly market dominated by foreign owned banks and characterized by minimum government interference. In 1982 the state bought 62% of Rhodbank which was then renamed ZIMBANK. In 1991 the Bank of Credit and Commerce of Zimbabwe (BCCZ) was taken over and converted into Commercial Bank of Zimbabwe (CBZ) but the shares were later diluted to 25%. Financial sector reforms meant to dilute the prevailing oligopoly market were implemented by the Reserve Bank of Zimbabwe. These financial reforms were argued as depriving the financial sector the choice and quality of service, innovation and efficiency.

The Banking Act (24:01) which was effected in 1999 removed the entry barriers which were in the financial sector and mainly indigenous investors were given licenses. Liberalization limited new foreign entries to 30% shareholding and existing foreign banks were not allowed to shed their shareholding. However, Barclays shed its shareholding by listing on the Zimbabwe Stock Exchange (ZSE). Following a period of economic meltdown most banking institutions were financially distressed and this prompted the RBZ under Reserve bank governor Dr. G. Gono to enact the Troubled Financial Institution Resolution Act which saw seven banks, all indigenous, put under curatorship, while one was closed and another placed under liquidation. In 2005 three banks namely Trust Bank, Royal bank and Barbican bank were merged to form the Zimbabwe Allied Banking Group (ZABG).

With inflation picking up to 1729% by January 2008 interest rates soured, value of collateral security fell resulting in asset liability mismatches hence undermining the performance of the banking sector as an industry. This resulted in low investor confidence, bank runs and further liquidity crisis. However, since the beginning of the multiple currency regime confidence among stakeholders has slowly been building up in the financial sector as economic recovery policies were put in place. In a bid to empower the citizens of its country, the Zimbabwean Government has requested that all foreign owned institutions cede 51% of ownership to indigenous people. This has in turn reignited the debate on what effect the change in ownership structure would have on foreign owned banks and also allowed debate to be made on the general effect ownership structure has on bank performance, a finding which this paper seeks to make.

Firm performance associated with different types of ownership structure has always been a highly debated issue. In the banking sector, there has been ongoing debate on the impact ownership structure has on bank performance. There is a general perception that dominant foreign owned banks are more efficient than state owned or locally owned banks. De Aless (1980) defines state owned enterprises as political firms with general public as a collective owner. Inefficiencies of such state owned banks were considered as due to lack of incentives, (Vickers and Yarrow 1989). The issue of foreign ownership has been an issue of interest. George, et

al. (2007) concluded that on average multinational enterprises have performed better than the domestically and state owned firms for the reason that that foreign owners have the ability to monitor managers and give them performance based incentives hence avoiding behaviors that undermine the wealth creation motivations. Foreign owned banks are also credited for efficient conducting of banking operations. Nevertheless, whether a bank suffers or benefits from dominant foreign or state ownership is still debatable. Some authors argue that foreign owners have a global advantage to provide modern financial services which include better banking skills, technology, access to international capital markets, (Berger, et al. 2001). On the other hand, proponents suggest that banks with domestic dominant ownership hold home country advantage to provide similar financial services at lower cost. These banks are free from agency problems arising from different cultures, languages, political influence and regulatory structures, (Berger et al, 2001).

2. 0 Literature review

2.1 Theoretical and empirical literature Review

2.1.1 Bank ownership and profitability

The relationship between bank ownership and performance has brought forth mixed views. Demist and Lehn (1985) proposed that there is no effect of ownership structure on accounting profits while Leech and Leach (1990) propounds that there is a relationship between ownership concentration and firm value and profitability. Moreover, of the loans that each type of bank has given out, private domestic banks were found to be earning 2.6% higher return than foreign banks. Surprisingly, despite a more aggressive lending policy, there was no difference in the measured default rate of private domestic and foreign banks. Independent risk ratings of loan portfolios by credit rating agencies also confirmed this result. The higher return on loans despite similar default rates implied that private domestic banks were more profitable than foreign banks on the loan side. However, the picture had reversed on the deposit and banking services side. Private domestic banks have higher interest expense on deposits, and lower revenue from the sale of banking services. Consequently there was no significant difference in the average profitability of private domestic and foreign banks in emerging economies.

With respect to country specific, state owned banks in developing countries tend to have lower profitability than domestic and foreign counterparts but this view was different from that of Gupta (2005) who pointed out that state owned enterprises have positive effects on profitability, productivity and investment in India. Contrastingly, Barth, et al. (2001) showed that in developing countries foreign banks tend to have greater profits, higher interest margins, and higher tax payments compared to domestic banks. Micco, et al. (2006) examined the relationship between bank ownership and bank performance for banks in 119 countries and found out that in developing countries, state-owned banks have lower profitability, higher costs and higher employment ratios than their domestic counterparts. This low profitability was attributed to the fact that rather than maximizing profits state owned banks respond to a social mandate, that is, they often align themselves with government policies even when these policies significantly diminish their profit margins. The same results were confirmed by Cornett, et al. (2003) who discovered that state-owned banks are significantly less profitable than private banks in their study of 16 far east countries between 1989 and 1998.

Concerning foreign banks Aydogan and Gursory (2002) showed that foreign banks have generally higher profits and margins compared to domestic banks in developing countries, while the opposite is true in industrial countries. A contrasting view was found by Vivas, et al. (1998) who carried out an empirical analysis in US and discovered that foreign banks have lower interest margins, overhead expense and profitability than the domestic banks. Also Manzoni, et al. (2003) studied the dynamics of foreign bank ownership in Hungary between 1994 and 2000 and concluded that foreign banks, while pursuing similar lending policies, achieve greater profitability than their domestic counterparts.

Lin and Zhang (2009) used a panel of 60 Chinese banks over the 1997–2004 and reported that the Big Four state-owned commercial banks were less profitable, than other types of banks. La Porta, et al. (2002) found that greater state ownership of banks resulted in political abuse, governance problems, reduced competition, poor productivity and lower growth thus lower profitability. Similarly Caprio and Martinez-Peria (2000) produced similar results and concluded that greater state ownership increased the probability of a banking crisis. These same results were also confirmed by Barth, et al. (2001) who argued that government banks give out loss-making loans to subsidize social projects such as agriculture, education hence low profit margins.

Kithinji and Waweru (2007) investigated the effects of ownership structure on the profitability of commercial banks in Kenya during 1993 and 2000 and the results indicated that profitability ratios declined for both domestic and state owned banks but improved for foreign banks in within that period. On the other hand, few studies have found that government ownership is positively related to firm profitability. State owned banks have cost and profit advantages over domestic banks in Germany, (Altumbas, 2001). According to Gerschenkron,

(1962) government ownership of financial institutions can play a major role in the financial and economic development of countries in which economic institutions are not sufficiently developed hence improving the profitability in the firms they own. Furthermore state ownership of banks was argued in helping overcoming informational problems and better directing scarce resources to highly productive projects therefore better profitability. On the other hand banks with domestic dominant owner hold country advantage to provide similar financial services at lower costs. These banks are free from agency problems arising from differences in culture language and regulatory structures hence making them more profitable than foreign owned banks, (La Porta, et al. 1999).

2.1.2 Domestic ownership and bank profitability

The majority of research indicated that private ownership of banks is associated with better economic performance, (Lang and So, 2002). Private domestic banks are financial institutions which are largely controlled by indigenous investors. The performance of such indigenous banks has produced different results especially at country level. The mixed outcome of performance of domestic banks has attracted lots of attention with some providing improved profitability performance but others giving negative results as measured by return on assets.

According to De Young, et al. (2006) domestic banks across United States (US) were on average less profitable than foreign banks during the period 1985 to 1990. Cross border empirical analysis of France, Germany, Spain, United Kingdom (UK) and the United States (US) have shown out that domestic banks have both higher cost efficiency and profit efficiency than foreign banks, (Berger et al, 2000). Furthermore, Sathye (2001) and Avkiran (1997) noticed superior performance of domestic commercial banks as measured by return on assets compared to their foreign counterparts in Australia during the period 1996. However, in contrast Gilbert and Wilson (1998) and Hao et al. (2001) reported a negative association between profit efficiency and private ownership and positive association between foreign ownership and profit efficiency in Korea. Clarke, et a., (2000) investigated the effect of foreign bank entry in Argentina during 1995-1997 and pointed out that foreign banks are more capable of generating more income as compared to domestic banks hence posting higher profits.

Kosmidou, et al. (2006) further investigated the performance of the banking sector in the United Kingdom (UK) focusing on the performance of the domestic banks as opposed to the performance of the foreign banks. For this purpose, a multivariate analysis was performed to identify the existing differences between the financial characteristics of domestic and foreign banks, considering profitability, liquidity, risk and efficiency factors and concluded that domestic banks performed better than foreign owned banks over the period 1998–2001. Furthermore, increases in domestic block holder ownership of banks appeared to improve the profitability of the banking sector The same results were discovered by Tahir, et al. (2009) who used the Data Envelopment Analysis (DEA) approach to estimate the overall, pure technical and scale efficiencies for Malaysian commercial banks during the period 2000-2006 discovered that domestic banks were relatively more profitable than foreign banks and this was attributed to technical rather than scale inefficiency. The study further examined whether the domestic and foreign banks were drawn from the same environment by performing a series of parametric and non-parametric tests and the results from the parametric and non-parametric tests suggested that for the years 2000-2004, both domestic and foreign banks possessed the same technology whereas results for 2005 and 2006 suggested otherwise hence implying that banks in recent years have had access to different and more efficient technology.

Lots of literature in developing countries have cited contrasting results from those of the developed countries with most of them resulting in inefficiencies on domestic banks in developing countries mainly because of scale and technical inefficiencies in such countries. A study carried by Toby (2007) in Nigeria pointed out that there was marked poor profitability efficiency on domestic banks which necessitated the Nigerian government to give a directive of mergers among these domestic banks. Kithinji and Waweru (2007) investigated the effects of ownership structure on the financial performance of commercial banks in Kenya between 1993 and 2000. The results indicated that the profitability ratios declined for both domestic and state owned banks but improved for foreign banks in financial performance.

2.1.3 Foreign ownership and bank profitability

The issue of foreign ownership of banks attracted a lot of attention in the ownership bank performance relationship with lot of literature yielding positive results at least in developing countries but such conclusions were not the same in industrial countries. Foreign presence of banks in developing countries was seen as move towards financial liberalization which was meant to relax the monopoly of government in the financial industry hence increasing profitability in the form of competition. Such foreign entry of banks was well established in countries where the rule of law is well established but where the financial sector is less developed. In terms of

individual bank performance, Claessens, et al. (2001) documented that foreign banks performed efficiently as measured by return on equity than their domestic counterparts in developing countries. However, in a research by Wen Wen (2010) focusing on Chinese firms, foreign owned banks failed to show uniformly strong positive impacts on firm performance as measured by profitability.

It is stipulated that firms with foreign ownership operating in developed countries performed better than their domestically owned counterparts. However in developing countries findings were mixed. As noted by Stulz (1999) firms with high foreign ownership may tend to perform effective monitoring such as frequent auditing and reporting actions. Such measures tend to reduce agency cost and thus contribute to increase firm profitability. Sarkar and Sarkar (2000) and Bonin et al. (2004) advanced that foreign ownership offer a superior access to technical, managerial talent and financial resources leading to positive influence on profitability. Contrary, De Young and Nolle (1996) found no evidence that foreign-owned banks have made better profits because the latter depend on purchased funds. This same view was later supported by Elyasiani and Mehdian (1997) who found no correlation of foreign ownership and bank profitability in their study of forty five (45) banks in East Asia. Although foreign banks gained greater support in developing nations, Claessens, et al. (2000) pointed out that the poor performance indicated by low profit margins of foreign banks in industrialized countries was due to the competitive and regulatory conditions in such countries.

2.1.4 Effect of foreign bank entry on profitability of domestic banks

Another interesting conclusion was that both profitability and overhead expenses of domestic banks have fallen with foreign bank entry. Demirguc-Kunt, et al. (1998) indicated that the presence of foreign banks lowers overhead costs and profits of domestic banks. There were also studies focusing on country-level experiences. Denizer (2000) investigated foreign bank entry in Turkey's banking sector. He showed that the net interest margin, overhead expenses and returns on assets were related to foreign ownership. He also indicated that foreign bank entry has a strong competitive effect on the banking sector hence increase the profitability of the domestic banks by lowering overhead expenses. Hasan and Marton (2000) investigated the Hungarian banking sector during the transitional process. They concluded that banks with higher foreign bank ownership involvement were associated with higher profitability. Goldberg, et al. (2000) studied the role of foreign banks in determining the health of domestic financial systems in Argentina and Mexico. The health of banks, and not their ownership, was found to be the critical determinant in the growth, volatility, and cyclicality of bank credits. But diversity in ownership tends to contribute to greater stability of credit in times of crisis and domestic financial system weakness.

According to Claessens, et al. (2001) foreign bank entry diminished the profitability of domestic banks and reduced their non-interest income and overall expenses. When other factors are controlled for, high profits reflect a lack of competition, while high overhead costs indicate a lack of efficiency. Such findings were argued as being consistent with the proposition that foreign banks improve the efficiency of domestic banks. Davids (2002) found out that foreign bank entry resulted in reduced performance of both state and domestic banks as measured by profitability in Poland. However, Dinc (2005) noted that foreign bank entries are related to higher operating efficiency, better financial intermediation and long-term growth of the banking market thus improved performance.

In a study of how foreign bank entry and foreign ownership of banks affect the domestic banks in the Philippines, Unite and Sullivan (2003) showed that foreign bank entry and penetration reduces interest spreads and operating expenses of domestic banks making them more profitable. Foreign entry appeared to improve the profitability of Colombian domestic banks by reducing non-financial costs, although the increased competition may have resulted in increased risk and deterioration in domestic banks loan quality, (Barajas, et al. 2000). Micco, et al. (2004) found out that foreign bank presence is associated with increased competitiveness of the domestic banks (lower margins and lower overhead costs). According to the World Bank (2002) foreign bank entry poses some benefits and costs to the domestic banks. Foreign bank entry increases the competition of the domestic banking sector. Increased competition tends to reduce costs and to increase profits. The presence of foreign banks therefore helps build a domestic banking supervisory and legal framework, and enhance overall transparency.

Regarding access to credit Clarke, et al. (2001) revealed that enterprises in countries with larger foreign bank presence judge interest rates and access to long-term loans as smaller constraints on operations and growth than do enterprises in countries with less foreign bank presence hence posting better profits. Furthermore, Detragiache, et al. (2006) developed a model that predicted that credit to the private sector should be lower in countries with more foreign bank penetration and the results were explained by the cream-skimming argument

which states that foreign banks are better than domestic banks at monitoring hard information like accounting information but have a disadvantage in monitoring soft information like entrepreneurial ability. This has led foreign banks to lend to safer and more transparent customers and avoid lending to opaque firms, (Berger, et al. 2001and Mian, 2006). Once these hard information customers are separated from the pool of other borrowers, the remaining soft information clients are left in a worse pool of borrowers, which causes them to either pay higher interest on their loans, or not borrow at all hence leading to an overall reduction in credit to the private sector.

However foreign bank entry can reduce the profitability of domestic banks because of the advanced use of services products which will attract more profitable portion of the domestic banks hence leaving domestic banks to take more riskier sectors which may negatively affect their performance. With increased foreign bank presence, access to credit may be impaired for some sectors of the economy and may increase financial instability by pulling out of host countries or by contagion from problems in the home country. Since foreign banks have different priorities and business focus, their lending pattern tends to ignore domestic priorities. Claessens, et al. (1998) examined the effects of foreign bank entry on the domestic banking sector and discovered that in developing countries foreign banks tend to have greater profits, higher interest margins, and higher tax payments compared to domestic banks which will not be able to keep pace with the advanced technology brought by foreign banks but the opposite is true in developed countries. Another interesting conclusion was that both profitability and overhead expenses of domestic banks fall with foreign bank entry. According to Demirguc-Kunt, et al. (1998) foreign bank participation lowers the possibility that a country will experience a banking crisis and went further to indicate that the presence of foreign banks lowers overhead costs and profits of domestic banks.

There were also studies focusing on country-level experiences. Denizer (2000) investigated foreign bank entry in Turkey's banking sector and discovered that net interest margin, overhead expenses, and returns on assets are positively related to foreign ownership. He also indicated that foreign bank entry has a strong competitive effect on the banking sector hence lowering the operating costs and overhead expenses on domestic banks thus an improvement in profitability. From his study of effects of foreign banks entry on bank performance in the Central and Eastern European (CEE) Countries Janek (2004) discovered that foreign banks entry affects negatively domestic banks' revenues from interest-earning assets, non-interest income, and profitability and can also raise the overhead costs of the local banks in short term.

2.1.5 Ownership concentration and bank profitability

According to Gursory and Aydogan (2002) owner concentration refers to the largest owner and is influenced by absolute risk and monitoring cost and this affects the profitability of banks. There is a linear positive association between ownership concentration and profitability, (Cubin and Leech, 1983). However, according to the theoretical and empirical studies in Stulz (1988) evidence showed a quadratic shaped relationship between level of ownership and firm profitability. Furthermore, as the first ever evidence in the literature, Magalhaes, et al. (2008) identified a cubic relationship between ownership concentration and bank profitability in 423 banks around 39 countries. However, Haw, et al. (2010) found that banks with concentrative ownership exhibited poorer performance, as measured by return on assets because of the high monitoring costs incurred emanating from strong incentives to engage in monitoring the management.

When ownership is widely dispersed, owners do not face strong incentives to engage in monitoring the management since they incur high monitoring costs but capture only a small share of the benefits, (Gursory and Aydogan, 2002). On the other hand Barry, et al. (2011) found that banks with more concentrated ownership structure performed better as measured by the profitability measure of return on equity because of being closely monitored. Similarly Shehzad, et al. (2010) observed improved profitability of concentrated banks in Turkey as measured by significant reduction of bank's non-performing loans ratio and increased capital adequacy ratio. Also the same views were shared by Jensen and Meckling (1976) who concluded that concentrated ownership may improve bank performance by decreasing monitoring costs and providing better control of management. Large owners have the incentives and the power to monitor managers hence minimizing the agency problem that arise from the separation between ownership and control. This therefore theoretically poses a positive relationship between ownership concentration and firm performance, (Shleifer and Vishny, 2002)

Regarding country specific, Gorton and Schmid (2000) found in Germany that higher ownership concentration has positive effect on performance measures, market to book ratio and return on assets. The same conclusion was confirmed by Claessens, et al. (2002) who observed positive performance of large concentrated banks in Asia as measured by return on asset and market to book ratio. Similarly, Zeitun and Tian (2007) found

significant and positive effects of ownership concentration on return on assets and return on equity of twenty nine (29) publicly listed banks in Jordan from 1989 to 2002. They reported that defaulted firms have a high concentration ownership compared with non-defaulted firms.

Contrastingly Demsetz and Lehn (1985) found no effect of concentration index on accounting profits rates of eleven (11) American banks. This same conclusion was confirmed by Demestz and Villalonga (2001) on Tobin's Q who found no correlation between banks ownership structure and concentration in developed economies. Similarly, Hovey, et al. (2003) discovered no effect of concentration on performance of listed Chinese banks. Using a sample of Australian banks McMahon (2007) similarly found no relationship between ownership concentration and bank performance. McMahon reported that there is no statistically significant relationship between the proportions of equity held by shareholders and financial performance as measured by profitability measure of return of equity. Furthermore, Leech and Leahy (1991) found, in the United Kingdom a negative relationship between the ownership concentration and the firm performance as measured by profitability and firm value. Thus mixed results were found regarding ownership concentration and bank profitability.

3.0 Methodology

A multistage sampling technique has been adopted. Firstly a stratified sampling technique was used where banks were stratified according to ownership structure. Three strata were formed that are state owned, foreign owned and domestic owned. These strata were adopted as they are the only ownership structures which were existing in the Zimbabwean banking sector within the period under study. Convenient sampling was then used in each strata. For state banks, all the banks were chosen because they are few ones existing in Zimbabwe. Also all foreign banks were selected for this research for the sake that they are few and their financial statements were accessible. A choice of domestic banks was based on the availability of the annual reports from a period of 2009 to 2011 as some banks disclosed their financial statements without other figures which were of importance in this research.

Table 3.1: Number banks in each sector.

BANK CLASS	2009	2010	2011
State owned	2	2	2
Foreign owned	4	4	4
Domestic owned	4	4	4
TOTAL	10	10	10

Source: RBZ annual report, (2011)

The effect of bank ownership structure on each performance was critically analyzed using the analysis of variance technique (ANOVA) in which the F calculated was compared with the F critical. From the analysis if F calculated is greater than F critical then ownership structure will have an effect on such performance measure otherwise it will have no effect.

4.0 Results and analysis

Bank profitability of all banks was measured using return on equity which was calculated using the formula of dividing profit and shareholder's equity. The following table gives the return on equity values for state owned banks, domestic banks and foreign owned banks which were used in this research for a period from 2009 to 2011.

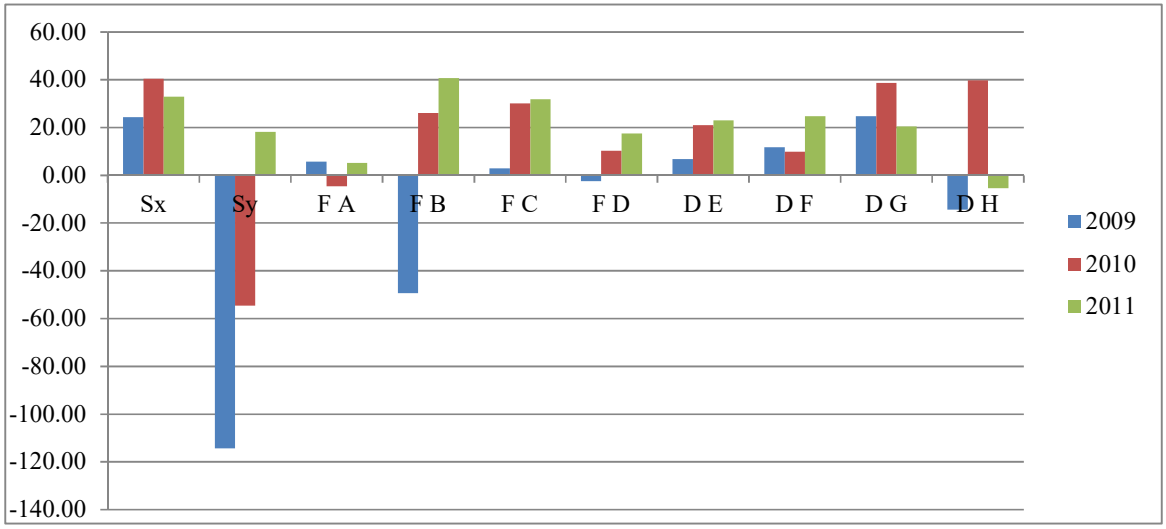

Figure 4.1 Profitability measures (ROE), Bank scope database

From figure 4.1 above it has been observed that in 2009 state bank X recorded the highest profits than other banks and again state bank X posted higher profits as measured by return on equity in 2010. However in 2011 the scenario changes now with foreign bank B recording the highest ROE of 42.7%. All the sectors recorded fluctuating ROE measures as shown by positives and negatives in each sector. To analyze the trend of these measures a trend analysis was carried out using the averages of each year for each sector and the results are as shown in figure 4.2 below:

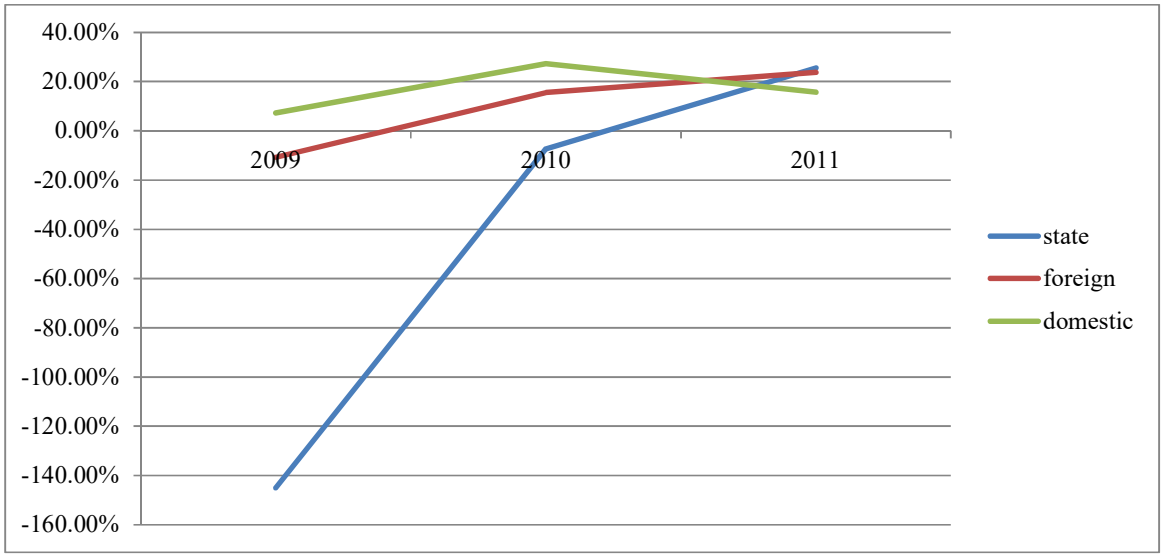

Figure 4.2: Trend analysis for means of profitability, Bank scope data base

From figure 4.2 above it has been observed that the average of state banks was deep in the negatives yet on individual basis state banks recorded the highest profits in both 2009 and 2010. This indicate that of the two state banks one was performing above par while the other one was operating below normal hence bringing the average to negative. It must be appreciated that although state banks registered a negative average of 144% in 2009 they gained more than others as shown by the steep slope of the trend line of state banks from 2009 to 2010. As for domestic banks there was a marginal increase in profitability from 2009 and reached a peak of 27.3 % in 2010 and decrease again to 15.27% in 2011 probably because of the competition posed by both foreign and state banks which were gaining more profits in the same period of 2010 to 2011.

From the figures of the ROE an analysis of variance was conducted. The purpose of carrying out the ANOVA was to test the null hypothesis that ownership structure has no effect on bank profitability against the alternative hypothesis that ownership structure has an effect on bank profitability. This was done by comparing the F-calculated which was found by dividing mean square (MS) between groups with MS within groups and the F-critical which is base of comparison at a certain significance level and in this case at 5% significance level. If F-calculated is found to be greater than F-critical then the null hypothesis will be rejected otherwise it will be accepted. The following results were observed:

Table 4.1: ANOVA Table for ownership structure and bank profitability

ANOVA: Single Factor						
SUMMARY						
Groups	***Count***	***Sum***	***Average***	***Variance***		
State	6	-53.1	-8.85	3842.181		
Foreign	12	113.8	9.473	555.48		
Domestic	12	200.9	16.742	258.134		
ANOVA						
Source of Variation	***SS***	***Df***	***MS***	***F***	***P-value***	***F-crit***
Between Groups	2631.207	2	1315.602	1.261	0.299	3.354
Within Groups	28160.63	27	1042.988			
Total	30791.82	29				

From the analysis in Table 4.1 above the F-calculated is less than the F-critical indicating that the null hypothesis is accepted therefore concluding that as far as profitability is concerned ownership structure has no effect on bank profitability as measured by Return on Equity (ROE). This means that the nature of ownership does not have any influence on the level of profitability that a bank can attain. This goes against the belief that foreign owned banks perform better than locally owned banks and proves the fact that locally owned banks are more flexible in adjusting to any banking environment in order to better or be at the same level of profitability as foreign banks.

5.0 Conclusion and recommendations

The paper concludes that there is no relationship between ownership structure and bank profitability. This is supported by McMahon (2007) who found no relationship of ownership structure and bank performance in his study of the sample of Australian banks. McMahon reported that there is no statistically significant relationship between the proportions of equity held by shareholders and financial performance as measured by profitability measure of return of equity. In addition Demsetz and Lehn (1985) found no effect of concentration index, respectively, on accounting profits rates of eleven (11) American banks and concluded that bank profitability does not depend on the nature of bank ownership. It is recommended that banking institutions should market their products effectively for them to increase their revenue hence profits since from the findings it is clear that customers will not look onto profitability of the banks since it was concluded that ownership structure is no related to profitability.

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